INTRODUCTION

“An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative.”

- By Graham and Qadd’s Security Analysis

“Investment Management is the process of managing money, including investments, budgeting, banking and taxes, also called as money management.”

We shall discuss about the following factors:

- Firstly: Meaning, concept, characteristics, need and importance, avenues, classification and modes of investment.
- Secondly: Influencing factors, process, feature, source of risk, recent trends and problems of investment.
- Thirdly: Meaning, characteristics, difference in speculation, investment and gambling.
MEANING AND CONCEPT OF INVESTMENT

Investment is a term for several closely related meanings in finance and economics.

**Investment according to Theoretical Economics**

Investment means the production of capital goods - goods which are not consumed but instead used in future production.

*Examples include*

- Building
- A railroad
- A Factory clearing land
- Putting oneself through college

**Investment according to Finance Term**

Investment means buying of Assets. For Examples

- Buying stocks and bonds
- Investing in real estate
- Mortgages

These investments may then provide a future income and increase in value (*i.e.*, investing in real estate).

**Investment according to Oxford Dictionary**

Investment means the investing of money.

**Investment from an Individual Point of View**

Investment refers to a money commitment of some sort. For example

1. A commitment of money to buy a new car is certainly an “investment”.

**CHARACTERISTICS OF INVESTMENT**

Investment refers to invest money in Financial physical assets and Marketable assets. Major investments features such as risk, return, safety, liquidity, marketability concealability, capital growth, purchasing power, stability and the benefits.
**Fig. 1.1 Characteristics of Investment**

Figure 1.1 indicates that an important characteristic of investments is outlined as:

- Risk
- Return
- Safety
- Liquidity
- Marketability
- Concealability
- Capital growth
- Purchasing power stability
- Stability of income
- Tax benefits.

**Risk**

Risk refers to the loss of principal amount of an investment. It is one of the major characteristics of an investment.

The risk depends on the following factors:

- The investment maturity period is longer, in this case, investor will take larger risk.
- Government or Semi Government bodies are issuing securities which have less risk.
- In the case of the debt instrument or fixed deposit, the risk of above investment is less due to their secured and fixed interest payable on them. For instance Debentures.
- In the case of ownership instrument like equity or preference shares, the risk is more due to their unsecured nature and variability of their return and ownership character.
- The risk of degree of variability of returns is more in the case of ownership capital compare to debt capital.
- The tax provisions would influence the return of risk.
Return
Return refers to expected rate of return from an investment

- Return is an important characteristics of investment. Return is the major factor which influences the pattern of investment that is made by the investor. Investor always prefers to high rate of return for his investment.

Safety
Safety refers to the protection of investor principal amount and expected rate of return.

- Safety is also one of the essential and crucial elements of investment. Investor prefers safety about his capital. Capital is the certainty of return without loss of money or it will take time to retain it. If investor prefers less risk securities, he chooses Government bonds. In the case, investor prefers high rate of return investor will choose private Securities and Safety of these securities is low.

Liquidity
Liquidity refers to an investment ready to convert into cash position. In other words, it is available immediately in cash form. Liquidity means that investment is easily realisable, saleable or marketable. When the liquidity is high, then the return may be low. For example, UTI units.

An investor generally prefers liquidity for his investments, safety of funds through a minimum risk and maximisation of return from an investment.

Marketability
Marketability refers to buying and selling of Securities in market. Marketability means transferability or saleability of an asset. Securities are listed in a stock market which are more easily marketable than which are not listed. Public Limited Companies shares are more easily transferable than those of private limited companies.

Concealability
Concealability is another essential characteristic of the investment. Concealability means investment to be safe from social disorders, government confiscations or unacceptable levels of taxation, property must be concealable and leave no record of income received from its use or sale. Gold and precious stones have long been esteemed for these purposes, because they combine high value with small bulk and are readily transferable.
Capital Growth
Capital Growth refers to appreciation of investment. Capital growth has today become an important character of investment. It is recognising in connection between corporation and industry growth and very large capital growth. Investors and their advisers are constantly seeking ‘growth stock’ in the right industry and bought at the right time.

Purchasing Power Stability
It refers to the buying capacity of investment in market. Purchasing power stability has become one of the import traits of investment. Investment always involves the commitment of current funds with the objective of receiving greater amounts of future funds.

Stability of Income
It refers to constant return from an investment. Another major characteristic feature of the Investment is the stability of income. Stability of income must look for different path just as security of principal. Every investor always considers stability of monetary income and stability of purchasing power of income.

Tax Benefits
Tax benefits is the last characteristic feature of the investment. Tax benefits refer to plan an investment programme without regard to one’s status may be costly to the investor. There are actually two problems:

- One concerned with the amount of income paid by the investment.
- Another is the burden of income tax upon that income.

NEED AND IMPORTANCE OF INVESTMENTS
An investment is an important and useful factor in the context of present day conditions. Some factors are important. They are as outlined below:

- Longer life expectancy or planning for retirement
- Increasing rates of taxation
- High interest rates
- High rate of inflation
- Larger incomes
- Availability of a complex number of investment outlets.
Longer Life Expectancy
Investment decisions have become more significant as most people in India retire between the ages of 56 to 60. So that, they are planned to save their money. Saving by themselves do not increase wealth, saving must be invested in such a way that the principal and income will be adequate for a greater number of retirement years.

Longer life expectancy is one reason for effective saving and further investment activity that help for investment decisions.

Increasing Rates of Taxation
When tax rate is increased, it will focus for generating saving by tax payer. When the tax payer invest their income into provident fund, pension fund, Unit Trust of India, Life Insurance, Unit Linked Insurance Plan, National Saving Certificates, Development Bonds, Post Office Cumulative Deposit Schemes etc. It affects the taxable income.

Interest Rates
Interest rate is one of the most important aspects of a sound investment plan. The interest rate differs from one investment to another. There may be changes between degree of risk and safe investments. They may also differ due to different benefit schemes offered by the institutions.

A high rate of interest may not be the only factor favouring the outlet for investment. Stability of interest is an important aspect of receiving a high rate of interest.

Inflation
Inflation has become a continuous problem. It affects in terms of rising prices. Several problems are associated and coupled with a falling standard of living. Therefore, investor careful scrutiny of the inflation will make further investment process delayed. Investor ensures to check up safety of the principal amount, security of the investment. Both are crucial from the point of view of the interest gained from the investments.

Income
Income is another important element of the investment. When government provides jobs to the unemployed persons in the country, the ultimate result is ensuring of income than saving the extra income. More incomes and more avenues of investment have led to the ability and willingness of working people to save and invest their funds.
**Investment Channels**

The growth and development of the country leading to greater economic prosperity has led to the introduction of a vast areas of investment outlets. Investment channels means an investor is willing to invest in several instruments like corporate stock, provident fund, life insurance, fixed deposits in the corporate sector and unit trust schemes.

**INVESTMENT ACTIVITY**

Investment activity includes buying and selling of the financial assets, physical assets and marketable assets in primary and secondary markets. Investment activity involves the use of funds or savings for further creation of assets or acquisition of existing assets.

Figure 1.2 indicates the investments activity. Accordingly investment activity refers to acquisition of assets like:

- Financial Assets
- Physical Assets
- Marketable Assets from the Primary and Secondary Market

![Diagram of Investment Activity]

**Fig. 1.2 Investment Activity**

**Financial Assets are:**

- Cash
- Bank Deposits
• P.F.
• LIC Schemes
• Pension Scheme
• Post Office Certificates and Deposits

Physical Assets are:
• House, Land, Building and Flats
• Gold, Silver and other Metals
• Consumer Durables

 Marketable Assets are:
• Shares
• Bonds
• Government Securities
• M.F. Schemes
• UTI Units etc.

Investment activity involves the use of funds or savings for further creation of assets or acquisition of existing assets.

CLASSIFICATION OF INVESTMENT

On the Basis of Physical Investments

Physical investments are:
• House
• Land
• Building
• Gold and Silver
• Precious stones

On the Basis of Financial Investment

Financial investments further classified on the basis of:
• Marketable and Transferable investments
• Non-Marketable Investments

Marketable and Transferable Investments

Marketable investments are:
• Shares
• Debentures of Public Limited Companies, particularly the listed company in Stock Exchange
• Bonds of Public Sector Units
• Government Securities, etc.

Non-Marketable Investments

Non-marketable investments are:
• Bank Deposits
• Provident and Pension Funds
• Insurance Certificates
• Post office Deposits
• National Saving Certificates
• Company Deposits
• Private Companies Shares etc.

MODES OF INVESTMENT

Modes of investment consist of:
• Security Forms of Investment
• Non-Security Forms of Investment/Non-Marketable Investment

Security Forms of Investment

Security forms of investment includes the following:
• Corporate Bonds/Debenture
  (a) Convertible
  (b) Non-Convertible
• Public Sector Bonds
  (a) Taxable
  (b) Tax Free
• Preference Shares
• Equity Shares
  (a) New Issue
  (b) Rights Issue
  (c) Bonus Issue

Non-Security Forms of Investment (non transferable)

Non-security forms of investment as outlined below:
• National Savings Scheme
• National Savings Certificates
• Provident Funds
  (a) Statutory Provident Fund
  (b) Recognised Provident Fund
  (c) Unrecognised Provident Fund
  (d) Public Provident Fund

• Corporate fixed deposits
  (a) Public Sector
  (b) Private Sector

• Life insurance policies
  (a) Whole Life Policies
  (b) Limited-payment Life Policy
  (c) Convertible Whole Life Assurance Policy
  (d) Endowment Assurance Policy
  (e) Jeevan Mitra
  (f) The Special Endowment Plan with Profits
  (g) Jeevan Saathi
  (h) The New Money Back Plan
  (i) Marriage Endowment/Educational Annuity Plan with Profits
  (j) Bima Sandesh Premium Back Term Insurance Plan
  (k) New Children’s Deferred Assurance Plan
  (l) Jeevan Dhara
  (m) New Jana Raksha Plan with Profits
  (n) Jeevan Akshay Plan
  (o) Jeevan Balya Plan
  (p) Jeevan Kishor
  (q) Jeevan Griha
  (r) Jeevan Sarita and Others

• Unit schemes of Unit Trust of India (Some are marketable among these)
  (a) Unit Scheme, 1964
  (b) Reinvestment Plan, 1966
  (c) Unit Linked Insurance Plan, 1971
  (d) Capital Gains Unit Scheme, 1983
  (e) Children’s Gift Growth Funds, 1986
  (f) Parent’s Gift Growth Funds, 1987
Investment

(g) Monthly Income Unit Scheme with Extra Bonus Plus Growth
(h) Master Shares
(i) Master Gains
(j) Equity Linked Savings Scheme
(k) Growing Monthly Income Unit Scheme
(l) Mastershare Plus etc.

- Post Office Savings Bank Account
  (a) Recurring Deposits
  (b) Time Deposits
  (c) Monthly Income Scheme
  (d) Social Security Certificates

- Others
  (a) Rahat Patras or Relief Bonds
  (b) Kisan Vikas Patra
  (c) Deposits in Co-operative Banks
     (i) Recurring deposits
     (ii) Time deposits, etc.

INVESTMENT FOR CONSUMPTION AND BUSINESS

The income is divided into two components, namely:
- Consumption
- Investment

The income which is not consumed is saved and invested. Investments are also useful for present and future consumption in the case of consumer durables, cars, gold and silver etc. But investment generally promote larger consumption in future as they lead to more income and larger capital appreciation in the years to come.

Some investments in business are used in trade and transport and other services. Thus, doctors, lawyers, traders etc. spend money for making investments for their business, which lead to further consumption of income.

Importance of Financial and Physical Investment

Many savers will have their first preference for physical investments which are less productive and rarely income earning. Such investments are in consumer goods like, non-durables or durables, gold, silver, cars and antiques and ‘curios’. These are satisfying the immediate consumer
needs, for comfort, luxuries, social status, ego buildings etc. Some of them if rented out to others give income and sometimes capital appreciation also, if the location is at the good places or commercial areas. Similarly, gold, silver and other metals, diamonds and antiques may present capital appreciation, without giving any regular income. Some investments are for social status and prestige as gold, diamonds, jewelry etc.

**FACTORs INFLUENCING INVESTMENT**

Investment refers to investment of physical assets, financial assets and marketable assets. Legal safe guards, stable currency, existence of financial institutions to encourage savings and forms of business organization factors are influenced to investor to invest money in different investment avenues.

![Diagram of Factors Influencing Investment](image)

**Figure 1.3 Factors Influencing Investment**

Figure 1.3 shows the influencing factors of investment, as outlined:

- Legal safeguards
- Stable currency
- Existence of financial institutions to encourage savings
- Form of business organisation

**Legal Safeguards**

A stable government brings adequate legal safeguards that encourages accumulation of savings and investments. Investors will be willing to invest their funds. They want the assurance and protection of their property rights from the government.
**In India, the investors have the dual advantage.**

- Free enterprise
- Government control

India is a mixed economy. It encourages the combination of the public sector which is controlled by the government and private sector left free to operate with a hope to achieve the benefits of both socialistic and capitalist forms of government without any disadvantages.

**A Stable Currency**

A well organised monetary system with definite planning and proper policies is a necessary pre-requisite to an investment market. Most of investments in terms of bank deposits, life insurance and shares are payable in a fixed amount of the currency of the country. A proper and well organised monetary policy will give direction to the investment outlets. Therefore, the monetary policy should neither promote acute inflationary pressures nor prepare for a deflation model. Neither of them is desirable. It affects as:

- Price inflation destroys the purchasing power of investments.
- Deflation is equally disastrous because the nominal values of inventories, plant and machinery and land and building tend to shrink.

The wise and planned monetary and fiscal management contributes towards proper control, good governance, economic well being and a well disciplined growth-oriented investment market along with the protection to the investor.

**Existence of Financial Institutions to Encourage Savings**

Existence of Financial Institutions which encourage savings and directing them effective utilisation of investment through growth of investment market. The financial institutions are generally in existence in most countries in terms of

- Commercial Banks
- Life Insurance Companies
- Investment Companies.

In India, the presence of large number of financial institutions under Central Government and local bodies have encouraged the growth of savings and investment. Life Insurance Corporation and Unit Trust of India offer a wide variety of schemes for savings and give tax benefits also.
• Industrial Development Bank of India (IDBI)
• Industrial Credit Investment Corporation of India (ICICI)
• Industrial Finance Corporation of India (IFCI)
• State Financial Corporations
• National Bank of Agriculture and Rural Development (NABARD)
• Commercial Banks
• Co-operative Banks
• Life Insurance Corporation
• Unit Trust of India
• Development Banks

These financial institutions offer wide variety of policies for encouraging savings and investment.

**FORMS OF BUSINESS ORGANISATION**

• Company
• Sole Trading Concern
• Partnership Firms
• HUF

These are different forms of business organisation. The form of business organisation which is permanently in existence aides saving and investment. The public limited companies is the best form of business organisation for investment.

The public limited companies are very useful to investors because of the following reasons:

• Limited Liability of Shareholders
• Perpetual Life and Transferability
• Divisibility of Stock and Shares
• The Ability to Continue its Business Irrespective of Members Comprising it
• It gives longevity and soundness to business activity.

In the case of sole trading concern, partnership and Hindu undivided family systems are not useful to investors because of the following reasons:

• Unlimited liability of the owners, partners and members.
• It suffers short life of the organisation.

In such conditions investors are not ready for investment because there is no safety and security of their investment.
The public limited company is a popular form for investment. The following reasons are attractive to investors to invest in public limited companies. They are:

- Liquidity
- Convenience
- Longevity
- Stable return.

THE INVESTMENT PROCESS/STAGES

Investment process refers to investment policy, investment analysis, valuation of securities, and proper portfolio construction in this way to achieve the investment process.

![Diagram of investment process/stages]

**Fig. 1.4 The Investment Process/Stages**

Figure 1.4 indicates the investment process/stages. The investment process/stages are outlined below:

- Investment Policy
- Investment Analysis
- Valuation of Securities
- Portfolio Construction

**Investment Policy**

Investment policy is the first stage of the investment process. It determines the following aspects of the investor:
• Determination of Investable Wealth
• Determination of Portfolio Objectives
• Identification of Potential Investment Assets
• Consideration of Attributes of Investment Assets
• Allocation of Wealth to Asset Categories.

**Investment Analysis**

Investment analysis is the second stage of the investment process. Investor analysis of the investment is made on the following grounds:

- Equity Stock Analysis
- Screening of Industries
- Analysis of Industries
- Quantitative Analysis of Stocks
- Analysis of the Economy
- Debentures and Bond Analysis
- Analysis of Yield Structure
- Consideration of Debentures
- Quantitative Analysis of Debentures
- Other Asset Analysis
- Qualitative Analysis
- Quantitative Analysis

**Valuation of Securities**

Valuation of the securities is the third stage of the investment process. This stage involves

- Valuation of Stocks
- Valuation of Debentures and Bonds
- Valuation of Other Assets

**Portfolio Construction**

Portfolio construction is the last stage of the investment process. It involves the following areas as outlined below:

- Determination of Diversification Level
- Consideration of Investment Timing
- Selection of Investment Assets
- Allocation of Investable Wealth to Investment Assets
- Evaluation of Portfolio for Feedback
Features of an Investment Programme

Exhibit 1.1 Features of an Investment Programme

Features of an investment programme consist of the following factors:

- Safety of principal amount
- Liquidity of the investment
- Income stability of the investment
- Appreciation and purchasing power stability of the investor investment
- Legality and freedom from care about the investment
- Tangibility of the investment

SOURCES OF INVESTMENT RISK

According to the Oxford dictionary definition of risk includes the following meanings: “The possibility of meeting danger or of suffering harm or loss.” This conforms to the connotations put on the term by most investors. An investor commonly identifies five kinds of investment risks. They are:

- Business and Financial Risk
- Interest Rate Risk
- Purchasing Power Risk
- Social/Regulatory Risk
- Other Risk

Business and Financial Risk

Business risk and financial risk are actually two separate types of risks. Of course, they are interrelated. Business risk is also known as operating risk. Operating risk is associated with day to day operations of the business firm. Financial risk is created by debt and preference shares (Fixed cost securities). Business and financial risk may be caused by a variety of factors as mention below:

- Heightened Competition
- Emergence of New Technologies
- Development of Substitute Products
- Shifts in Consumer Preferences
- Inadequate Supply of Essential Inputs
- Changes in Government Policies
- Poor Business Performance.
Interest Rate Risk
Interest rate risk is another source of investment risk. Changes of the interest rates on the securities is created risk for investors. If the interest rate goes up, the marketing price of existing fixed income securities falls, and vice versa. This happens because the buyer of a fixed income security would not buy if its par value or face value if its fixed interest rate is lower than the prevailing interest rate on a similar security.

Market Risk
Even in the case of earning power of the corporate sector and the interest rate structure remain more or less changed, prices of securities, equity shares in particular, tend to fluctuate. There are several reasons for this fluctuation.

The main reasons are listed below:
- The changing psychology of the investors.
- There are periods when investors become bullish and their investment horizons lengthen.
- An unexpected war, the election year, political activity, illness or death of an important person, speculative activity in the market, the outflow of business-all are tremendous psychologic factors in the market.

These reasons result in that the prices of almost all equity shares register decline as fear and uncertainty spread in the market.

Purchasing Power Risk
Purchasing power risk is the major source of risk faced by investors. The investor select investments whose market values change with consumer prices which compensates them for increase in cost of living. If they do not, they will find that their total wealth has been diminished. Inflation which destroys the economic power of investors over goods and services. In essence, all investors have to be concerned with the command that their invested money has over goods and services on a continuing basis.

Other Risks
Other types of risks are particularly associated with investment in foreign securities. It involves monetary value risk and political environment risk. The investors who invest in foreign securities, have faced several risks. They are outlined as below:
- A change in the foreign government and repudiation of outstanding debt
• Nationalisation of business, firms, that is, seizure by government
• The desire but inability of the foreign government or corporation to handle its indebtedness.

**RECENT TRENDS OF INVESTMENTS**

**Exhibit 1.2 Recent Trends of Investments**

Recent trends of investments are
• In India, increase in working population, larger family income and consequent higher savings
• Provision of tax incentives in respect of investments in specified channels provided by government
• Increasing tendency of people to hedge against inflation that protected by government
• Availability of large and attractive investment alternatives developed in India
• Increase in investment related publicity in India
• Ability to invest to get income and capital gains etc.

**PROBLEMS IN INVESTMENT**

**Exhibit 1.3 Problems in Investment**

• Inadequate comprehension of return and risk
• Investment policy is not clearly formulated
• Careless decision making in investment process
• Simultaneously switching of investment activity
• Traditional trends affected to the investment
• Inadequate planning to buy cheap stocks
• Either over diversification or underdiversification of stock
• Investors are ready to buying shares of familiar companies that problem for investment in future
• Wrong attitude towards losses and profits
• Tendency and difficult to speculate to investments

**SPECULATION**

According to the Oxford Dictionary, definition of speculation includes the following meanings:

“A message expressing an opinion based on incomplete evidence.”

Speculation is the buying, holding and selling of stocks commodities, collectibles real estate or any valuable thing to profit from fluctuations
in its price as opposed to buying it to use. Sometimes speculative purchasing can cause particular prices to rise above their “real value” simply because the speculative purchasing is artificially increasing the demand. Speculative selling can also cause prices to fall below “true value” in a similar fashion. In some situations price rises due to speculative purchasing cause further speculative purchasing in the hope that the price will continue to rise.

Speculation Functions

<table>
<thead>
<tr>
<th>Exhibit 1.4 Speculation Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Smoothen operating of price fluctuation process</td>
</tr>
<tr>
<td>• It maintains temporary equilibrium between capital supply and demand</td>
</tr>
<tr>
<td>• Consideration of future business prospects in determining the business value of existing capital funds</td>
</tr>
<tr>
<td>• Equating the risk to return in the infinitely varied utilizations of the social capital fund</td>
</tr>
</tbody>
</table>

Difference between Speculation and Investment

<table>
<thead>
<tr>
<th>Basis</th>
<th>Speculation</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>• A message expressing an opinion based on incomplete evidence</td>
<td>• The investing of money</td>
</tr>
<tr>
<td>Types of contract</td>
<td>• Speculator is a owner of the speculation</td>
<td>• Investor is a creditor of the Investment</td>
</tr>
<tr>
<td>Length commitment</td>
<td>• In the case speculation the length of commitment is a short term only</td>
<td>• In the case of investment the length of commitment is a long term</td>
</tr>
<tr>
<td>Source of Income</td>
<td>• The source of income is fluctuated and changes in market price</td>
<td>• The source of income is earning from the enterprise</td>
</tr>
<tr>
<td>Quantity of Risk</td>
<td>• Quantity of risk is the high</td>
<td>• Quantity of risk is the low</td>
</tr>
<tr>
<td>Stability of Income</td>
<td>• Income is uncertain and erratic</td>
<td>• Income is very stable</td>
</tr>
<tr>
<td>Psychological attitude</td>
<td>• Speculator psychological attitude is a daring and careless</td>
<td>• Investor psychological attitude is a cautious and conservative</td>
</tr>
<tr>
<td>of Participants</td>
<td>• It is unscientific analysis of intrinsic worth</td>
<td>• It is scientific analysis of intrinsic worth</td>
</tr>
<tr>
<td>Reasons for Purchase</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investment

Difference between Investor and Speculator

Base
- Planning Horizon
- Risk Disposition
- Return Expectation
- Basis for Decisions
- Leverage

Investor
- An investor has a relatively longer planning horizon. His holding period is usually at least one year.
- An investor usually seeks moderate rate of return.
- An investor attaches greater significance to fundamental factors and attempts a careful evaluation of the growth of the enterprise.
- An investor uses his own funds to avoid borrowed funds.

Speculator
- A speculator has a very short planning horizon. His holding may be a few days to a few months.
- A speculator looks for a high rate of return.
- A speculator relies more on hearsay, technical charts, and market psychology.
- A speculator Normally takes to borrowings, which can be very substantial, to supplement his personal resources.

Exhibit 1.5 Difference between Investor and Speculator

Gambling

According to the Oxford dictionary, gambling means: "Taken risk in the hope of a favourable outcome." Gambling most often refers specifically to the wagering of money on games of chance or more broadly to engaging in high risk behaviour. Gambling refers to an act of involving an element of risk, without demanding compensation in the form of increased expected return.

Characteristics of Gambling

Exhibit 1.6 Characteristics of Gambling

- Gambling is a typical, chronic and repetitive experience.
- The gambler displays persistent optimism without winning.
- The gambler never steps while winning.
- The gambler eventually takes more risk.
- The gambler seeks and enjoys a strange thrill from gambling.
- In gambling artificial and unnecessary risks are created.

Exhibit 1.7 Characteristics of Gambling

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- In gambling artificial and unnecessary risks are created.
The Position

Many investors are tax paying individuals. The income tax rates vary from 10% to 30%. The tax rate on capital gains of a long term lower at 20%. While the short term capital gains are taxable at slab income tax rates. Long term capital gain and short term capital gain depends on the nature of investments. In the case the investments in terms of corporate shares and securities that holding for more than 12 months by the investor will make them as long term nature. While other investments like as house, land, gold etc. that holding for more than 36 months by the investor will make them as long term nature. If shares and securities holding by the investor less than 12 months. And house, land, gold which holding by the investor less than 36 months will make them as short term capital gain.

Specialised Knowledge

In investment management, there is need for a sort of expertise. Therefore, investment is both a science and an art. If the return on investment is high, the degree of risk is also high with expected returns and time frame investments. Time is an important element for both tax purposes and for risk taken.

Specialised knowledge, effective and proper management of investment involves:

- Efficient use of cash and proper distribution of money among different investments channels.
- Proper analysis of risk and return for each investments
- Expertising analysing information in terms of technical analysis and security analysis for proper investment decisions that are based on a study of fundamentals, expectations and mood of the markets.

Thus, the investment management involves various elements for getting best returns in the form.

- Study of tax implications
- Time duration and proper strategy for reducing taxes and increasing the after tax returns
- Excellent knowledge for understanding financial markets.

INVESTOR

“A person whose principal concern in the purchase of a security is the minimizing of risk, compared to the speculator who is prepared to
Investment

accept calculated risk in the hope of making better-than-average profits, or the ‘gambler’ who is prepared to take even greater risks. More generally it refers to people who invest money in investment products.”

“An individual who makes investments. An investor can act on behalf of others, for example, stock brokers or mutual fund managers make investments for others. Or else an investor can make investments for ones own personal account.”

**Qualities of Investor**

- **Safety Players**
  Safety Players who take the path of least resistance, looking primarily for security and safety in their investments and doing what has worked previously.

- **Entrepreneurs**
  Entrepreneurs are a particularly male-dominated profile driven by a passion for excellence and commitment, and who are not motivated by money in itself. Financial success is a scorecard and stock investment is a method of implementing and demonstrating that success.

- **Optimists**
  Optimists are non-risk oriented, often near retirement, seeking peace of mind, these are investors who don’t like to become too involved with their own financial management as it would cause them stress and reduce their enjoyment of life.

- **Hunters**
  Hunters are often educated, high-earning women with an impulsive streak, a ‘live now attitude.’ They have a strong work ethic, much like entrepreneurs, but lack the same confidence in themselves. They may attribute their success to luck rather than ability.

- **Achievers**
  Achievers are conservative, risk-averse, these investors like to feel in control of their money, with security and protection of their assets a primary consideration. They are often, married, well educated, high-earners who feel that hard work and diligence is more likely to bring financial reward than investing.

- **Perfectionists**
  Perfectionists are afraid of making financial mistakes, they tend to avoid investment decisions altogether. They lack confidence and self-esteem, and have low pride in handling financial
matters, finding every conceivable excuse for not taking action. For them no investment is without fault.

• **Producers**
  Producers are highly committed to their work. They may earn less due to a lack of self-confidence in money management. And with a lack of basic financial knowledge they may have less available funds to invest. They do not appreciate how to evaluate risk appropriately.

• **High Rollers**
  High Rollers are thrill seekers, power seekers, creative and extroverted, they work hard and play hard. They have to be involved in high risk investing with a large amount of their assets. Financial security bores them - even though their actions may have financially dangerous consequences.

• **Money Masters**
  Money Masters are tending to have a balanced financial outlook that gives contentment and security, these investors like to be involved with the management of their money and their choice of investments, although they will take onboard good, sound advice. They are determined individuals, not easily thrown of their chosen course, and who don’t leave things to luck.

• **Adventurers**
  Adventurers are confident ‘go for it’ types who are strong-willed and ready to take chances.

• **Celebrities**
  Celebrities are those who need to be in the center of things and don’t like to be left out, often constantly checking whether they should be in the latest fashionable investment but may not really have any clue as to how to take control of their finances.

• **Individualists**
  Individualists are confident individuals who make their own decisions but who are methodical, careful, balanced and analytical.

• **Guardians**
  Guardians are investors, often older ones, who are cautious and intent on safeguarding their wealth, shunning volatility or excitement.

• **Straight arrows**
  Straight arrows are Mr. or Mrs. Average who do not fall into any of the extremes of the above categories, who is somewhat
balanced in their investment approach and willing to take on moderate risk.

**Types of Investor**

- **Cautious Investors**
  Cautious Investors are very conservative, this type of investor has a need for financial security and will avoid high-risk ventures as well as listening to professional advice, preferring to conduct their own financial affairs. They don’t like to lose even small amounts of money and never rush into investments, always giving financial opportunities a great deal of thought.

- **Emotional Investors**
  Emotional Investors are easily attracted to fashionable investments or ‘hot’ tips, these investors act with their heart and not their head. A whim or a gut feeling leads their decisions, and they have great difficulty disengaging from poor investments or cutting losses. They have an unreasonable belief that things will come right in the end and often put their trust in luck or ‘providence’ to safeguard their financial assets.

- **Technical Investors**
  Technical Investors are hard facts - numbers - lead this type of investor to active trading based on price movements. They are screen-watchers, sometimes obsessional, but their diligence can be rewarded if they spot trends. They may also have a tendency to ‘need’ and buy the latest technology as they are always looking for some edge.

- **Busy Investors**
  Busy Investors need to be involved with the markets, it gives them a buzz when they check the latest price movements, which may be several times a day. They have to keep buying and selling - on rumours, on overheard gossip, from the mass of newspapers and magazines they collect. Any tidbit of information they can glean is imbued with significance and a cause to take financial action.

- **Casual Investors**
  Casual Investors are a laid-back attitude to investment, these individuals are often hardworking and involved with work or family. They tend to believe that once an investment is made it will take care of itself, and that a good job or a profession is the way to make real money. They easily forget that they own investment assets and rarely check on their financial
Informed Investors use information from a variety of sources and keep an ongoing watch on their investments, the markets and the economy. They listen carefully to financial opinions and expert assessments, and will only go against market fashion, as a contrarian, after weighing up all the pros and cons. They are financially confident and have faith in their decisions, knowing that knowledge and experience will always win out to give them long-term profits.

Passive Investors are characterised as individuals who have become wealthy passively - by inheriting, by a professional career or by risking the money of others rather than their own money. To these investors security is more important than risk. In addition, certain classes of occupation are more likely to contain passive investors. For example, non-surgical doctors, corporate executives, lawyers and accountants who work in companies. Reasons for this are that these individuals are less likely to have high financial resources at an early stage in their careers, having had to delay earning good salaries in order to study or having to repay student loans. Once earning a decent wage, they are then more careful with their money, having a greater need for security. Anyone, therefore, with reduced financial recourses is likely to be more risk conscious and hence, a passive investor. For these individuals it’s important to hang on to their money.

Passive investors make good clients because they tend to trust their financial advisor and are more likely to delegate the running of their financial affairs. And because they are risk averse, they tend to like diversified portfolios of investments in quality companies or investment products. However, they can believe that an investment is more risky than it is, which may keep them out of potentially lucrative opportunities. Passive investors are also more likely to need the approval of others and are unlikely to take a first step into unknown investment territory by being a contrarian. Consequently, they are more likely to follow the investment herd when it comes to stock market investment and stick to following the trend.
• **Active Investors**

According to Barnwell, Active Investors are those who have achieved significant wealth, or earned well, during their own lifetime. They are more likely to take risks in investing because they have previous experience of taking risks in their previous wealth creation. These individuals have a high-risk tolerance and less of a need for security. They also need to feel in control of their own abilities. Once they feel they are losing control of an investment situation, their risk tolerance reduces. By being actively involved and in control, these investors feel they are reducing risk. However, such involvement may actually be detrimental as it is likely to be a source of irritation to their investment advisor who cannot get on with the business of running their clients affairs due to constant questioning and harassment. The classes of occupation that are likely to be active investors include: small business owners who have developed their own businesses rather than inherited, medical surgeons, independent professionals, such as lawyers or accountants, who work for themselves rather than a large firm, entrepreneurs, and self-employed consultants.

Active investors are more likely to get personally involved with the running of their financial affairs, and may believe they know more than their advisor does. They are less likely to delegate the maintenance of those parts of their investment portfolio in which they believe they have experience or have had personal success. However, these individuals are more likely to be contrarian in their stock picking habits and have less need to be completely diversified. Age tends to soften their need to be constantly in control, so that older clients may be more malleable and open to their advisors suggestions.

**QUESTIONS FOR DISCUSSIONS**

1. Define term investments.
2. Outline the reasons for the emerging popularity of today’s investment world.
3. Define the term speculation.
4. Define the term gambling.
5. Discuss the characteristics of investment.
6. Discuss the characteristics of investors.
7. What is investment activity?
8. What are the difference between investment and speculation?
9. What are the difference between investor and speculator?
10. Discuss the most common problems observed in analysing investments of individual investors.
11. Discuss the feature of investment programme.
12. Describe the concept of investment.
13. What are the importance of investments?
14. Discuss the terms:
   - Financial investments
   - Physical investments
   - Marketable investments
   - Non-marketable investment
15. Discuss the classification of investment.
16. Describe the modes of investment.
17. Explain what are the objectives of investment?
18. Why do people invest? What are the factors which are favourable for making decisions in investments in an economy?
19. Describe the features of an investment programme? What steps should an investor follow to make an investments?
20. What are characteristics of gambling?
21. Discuss the process of investment.

REFERENCES

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